

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION OF KWA SANI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE
2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Kwa Sani Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 2 to 22.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified standards of Generally Recognised Accounting Practice (GRAP), Generally Accepted Municipal Accounting Practice (GAMAP) and the South African Statements of Generally Accepted Accounting Practice (GAAP): the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by Kwa Sani Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1 to the financial statements.

Basis for qualified opinion

10. Debtors

10.1 Sisonke debtor

Disclosed in Note 8 of the financial statements is an amount of R275 000 relating to the balance owing from Sisonke District Municipality for the transfer of water and sanitation services. Included in Sisonke's books is a balance of R231 000 disclosed as owing from Kwa Sani Municipality. Supporting documentation and reconciliations for the difference of R506 000 could not be provided. Consequently, I did not obtain sufficient appropriate evidence to satisfy myself as to the accuracy and recoverability of this amount.

This matter was reported in the prior year and to date no agreement has been reached regarding the balance due to/owing from Sisonke District Municipality.

10.2 Consumer debtors- payments received in advance

Included under consumer debtors is payments received in advance, amounting to R424 000. A proper audit trail from the batches recorded in the general ledger to the actual receipt did not exist. I was therefore unable to carry out the audit procedures necessary to audit the balance.

10.3 Bad debts provision

The municipality did not have an accounting policy for the provision for bad debts. At year end the total consumer debtors outstanding for more than 120 days amounted to R683 000, whilst the provision for bad debts amounted to R73 000. As a result consumer debtors are overstated and expenditure is understated by R610 000.

11. Revenue

11.1 Lease agreement

During the year the municipality received rental income in terms of a lease agreement entered into with Vodacom. However, the lease agreement could not be provided on request. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of total rental income received of R125 000.

12. Creditors

12.1 Staff leave provision

The staff leave provision is based on the total leave due to staff at year-end. As a result of the errors found with the recording and management of leave transactions and balances, I could not satisfy myself regarding the accuracy of the leave balances recorded for each staff. As a result I could not satisfy myself as to the accuracy and completeness of the staff leave provision of R267 000.

13. Unauthorised expenditure

The total actual expenditure of R18,5 million exceeded the total budgeted expenditure of R15,7 million resulting in unauthorized expenditure of R2,8 million. The financial statements does not include any disclosure of unauthorized expenditure as required by section 125(2)(d)(i) of the MFMA.

Qualified Opinion

14. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Kwa Sani Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the modified standards of GRAP, GAMAP and GAAP: the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

15. Non-compliance with applicable legislation

15.1 Municipal Finance Management Act

15.1.1 Budget time schedule

A time schedule outlining key deadlines for the preparation, tabling and approval of annual budget was not tabled in council at least 10 months before the start of the budget year, as required by section 21(1)(b) of the MFMA.

15.1.2 Fraud prevention plan

The municipality has not developed and implemented a fraud prevention plan. The municipality has therefore not effectively managed its risks in accordance with section in contravention of section 62(1)(c)(i) of the MFMA.

15.2 Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA)

15.2.1 No performance contract in place for the Municipal Manager

A performance contract for the municipal manager appointed on 1 September 2007 has not yet been concluded as required by section 57 of the MSA.

15.3 Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)

15.3.1 Excessive overtime

It was noted that employees had worked excessive overtime which in some instances were above 30% of their basic income in contravention with section 10 of the Basic Conditions of Employment Act, 1997.

16. Matters of governance

16.1 Internal audit

The internal audit function at Kwa Sani Municipality was initially outsourced to an external service provider and has subsequently been established as a shared service with the other municipalities falling under the Sisonke District. A review of internal audit revealed the following weaknesses which indicates that internal audit has not been effective in fulfilling its duties in accordance with the internal audit charter and section 165(2) of the MFMA:

- the position of Head of Internal Audit has not been filled;
- there was no approved annual internal audit plan as required by the internal audit charter;
- the internal audit charter did not include a requirement that the appointment or dismissal of the Head of Internal Audit should be concurred by the audit committee;
- internal audit has not developed a structured procedure to schedule/ allocate the resources to meet the objectives as per the audit plans;
- the internal audit unit did not perform any internal audit reviews for the municipality during 2006/07 apart from performing a risk assessment;

16.2 Audit committee

A single audit committee has been established for the district municipality and the local municipalities within the district. The audit committee did not hold any meetings during the year and was therefore not effective in fulfilling its responsibilities in terms of section 166(2) of the MFMA.

17. Value-for-money matters

17.1 Human resource management

An effective system of internal control can be achieved by segregating incompatible duties to ensure that the initiation, recording, processing and authorisation of transactions are not performed by the same officials.

In this regard the finance section of the municipality was not adequately staffed in order to achieve adequate segregation of incompatible duties.

14.2 Supply chain management

14.2.1 Requisitions and orders

During the audit it was noted that all expenditure was not supported by a signed requisition or order form as required by the municipality's supply chain management policy.

14.2.2 Adjudication reports

The adjudication reports for the tenders awarded during the year could not be located. I was therefore unable to carry out audit procedures to determine if the proper process, in accordance with the supply chain management policy and regulations, was followed when the tenders were awarded.

15. Internal control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for qualified opinion					
Debtors			✓		✓
Revenue			✓		
Creditors			✓	✓	

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Unauthorised expenditure			✓		✓
Other matters					
Non-compliance with applicable laws and regulations			✓		✓
Matters of governance	✓				
Value for money matters	✓		✓		

16. Unaudited supplementary schedules

The supplementary information set out on pages 23 to 29 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

17. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

18. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

22. Non-compliance with regulatory requirements

During the year under review the municipality did not have a performance management system in place as required by section 38 of the MSA.

Consequently, the municipality has not submitted an annual performance report which included an assessment by the municipality's accounting officer of the municipality's performance against any measurable performance objectives set in terms of the service delivery agreement, as required by section 121(4)(d) of the MFMA

23. Content of the integrated development plan

The integrated development plan of Kwa Sani Municipality did not include key performance indicators and performance targets for all development objectives determined in terms of a performance management system as required by section 26 (g),(h) and (i) of the MSA. In addition, outputs that had been determined were not always measurable.

24. Performance information not received in time

The municipality did not submit the annual performance report as required by section 46 of the MSA. Consequently, the municipality's performance against any measurable performance objectives were not audited, as required by section 45(b) of the MSA.

APPRECIATION

25. The assistance rendered by the staff of the Kwa Sani Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2007



A U D I T O R - G E N E R A L



KWA SANI MUNICIPALITY

16 October 2007

Auditor - General
Private Bag x9034
Pietermaritzburg
3200

Dear Mr R Rabichand

Re: basis of presentation of the financial statements of Kwa Sani Municipality for the year ended 30 June 2007

Your letter dated the 2nd October 2007 refers. The municipality's understanding is that agreement from National Treasury is required if a municipality has deviated from the requirements of Government Gazette 30013 dated 29 June 2007. Paragraphs 4 (2) (a), (b) and (c) of the gazette refer in this regard.

Kwa Sani Municipality has not deviated because the 2006/2007 financial statements have been prepared and submitted using the same basis of accounting applied in the 2005/2006 financial year.

The municipality's service provider, Mr Phil Havey of Alan H English confirmed that no agreement is required with Mr Mbulelo Ngaba of National Treasury on the 3rd October 2007. As a result no letter was requested from National Treasury asking for exemption.

Yours sincerely

N Collins
Chief Financial Officer

P.O. Box 43
Himeville
3256

32 Arbuckle Street
Himeville
3256

Tel : 033 702 1060
Fax : 033 702 1148

Email addresses:

Mayor
ksmmayor@xhuma.co.za

Municipal Manager
ksmmm@xhuma.co.za

Finance Department
ksmfinance@xhuma.co.za

Corporate Services
ksmadmin@xhuma.co.za

Planning & Development
ksmtech@xhuma.co.za



AUDITOR - GENERAL

The Municipal Manager
KwaSani Municipality
P.O Box 43
Himeville
3256

Fax: 033- 7021148

2 October 2007

Re: Basis of presentation of the financial statements of KwaSani Municipality for the year ended 30 June 2007

Reference: 21456,REG06/07

Dear Mr Gwacela

The financial statements for KwaSani Municipality was submitted to our office on 31 August 2007 for audit. These financial statements were prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Standards of Generally Accepted Municipal Accounting Practice (GAMAP). The Minister of Finance has, in terms of General Notice 552 of 2007, exempted compliance, by high capacity municipalities, with certain of the standards and aspects or parts of these standards. Details of the exemptions are included in the annexure to General Notice 552 of 2007.

In the case of medium and low capacity municipalities the requirement for presentation of financial statements for 2006/07 in terms of the gazette is as follows:-

- a) Prepare financial statements in terms of IMFO ie fully exempted to comply with section 122(3) of the Municipal Finance Management Act.
- b) Prepare financial statements on the same basis of accounting as applied in 2005/06 ie full compliance with GRAP/GAMAP/GAAP in terms of 4 October 2006 communication from National Treasury.
- c) Any deviation from paragraph (a) and (b) must be agreed to by National Treasury in writing.

KwaSani Municipality has prepared financial statements in compliance with GRAP/GAMAP and has taken advantage of the exemptions granted to high capacity municipalities. In terms of General Notice 552 of 2007, however, a letter from National Treasury is required allowing the municipality to comply with this basis.

The letter from National Treasury is thus urgently required in order to finalise our audit against the approved basis of presentation.

Should you have any queries please do not hesitate to contact me.

Yours sincerely



Rashika Rabichand

Senior Manager: KZN2
Telephone: (033) 254 7400